AR34

Annual Report 1969

TransCanada PipeLines Limited

Directors and Officers

Directors

T. H. Atkinson, M.C.,
Company Director,
Montreal

R. A. Brown, Jr., D.U.C.
President and Managing Director,
Home Oil Company Limited,
Calgary

R. W. Campbell,
Executive Vice-President
and General Manager,
Home Oil Company Limited,
Calgary

John H. Coleman,
Executive Vice-President and Director,
The Royal Bank of Canada,
Montreal.
(Appointed March, 1970)

Vernon L. Horte,
President,
TransCanada PipeLines,
Toronto

E. L. Kennedy,
Partner,
Lehman Brothers,
New York

James W. Kerr,
Chairman and Chief Executive Officer,
TransCanada PipeLines,
Toronto

E. D. Loughney
Executive Vice-President and Director,
Gulf Oil Corporation,
Pittsburgh

Beverley Matthews, C.B.E., Q.C.,
Messrs. McCarthy and McCarthy,
Toronto

N. J. McKinnon,
Chairman of the Board,
Canadian Imperial Bank of Commerce,
Toronto

N. John McNeill, Q.C.,
President,
Great Lakes Gas Transmission Company,
Detroit

A. Deane Nesbitt, O.B.E., D.F.C.,
Chairman of the Board,
Nesbitt Thomson and Company, Limited,
Montreal

Gordon P. Osler,
Chairman and President,
UNAS Investments Limited,
Toronto

Smiley Raborn, Jr.,
President,
Canadian Delhi Oil Ltd.,
Calgary

Frank A. Schultz,
Independent Oil Operator,
Dallas

W. P. Scott,
Honorary Chairman,
Wood, Gundy Securities Limited,
Toronto

Ian D. Sinclair, Q.C.
President,
Canadian Pacific Railway Company,
Montreal

G. H. Thompson, M.C., D.U.C.,
Chairman of the Board,
Calgary Power Ltd.,
Calgary

J. R. Timmins, O.B.E., LL.D., D.Sc.,
Senior Partner,
J. R. Timmins & Company,
Montreal
(Resigned, December, 1969)

J. Ross Tolmie, Q.C.
Messrs. Herridge, Tolmie,
Gray, Coyne & Blair,
Ottawa

Marcel Vincent,
Chairman of the Board,
Bell Canada,
Montreal

George W. Woods,
Group Vice-President,
TransCanada PipeLines,
Toronto

Principal Officers

James W. Kerr, P.Eng.,
Chairman and Chief Executive Officer

Vernon L. Horte, P.Eng.,
President

George W. Woods, F.C.A.,
Group Vice-President

Walter Hindle, P.Eng.,
Group Vice-President

Carlton C. Whitaker,
Vice-President,
Engineering and Operations

John E. Lee, P.Eng.,
Vice-President,
Planning and Development

Gordon A. Leslie, P.Geol.,
Vice-President,
Gas Supply

James M. Cameron,
Vice-President and General Counsel

Robert G. Wall, C.A.,
Vice-President and Treasurer

Donald M. Johnston,
Secretary and Assistant General
Counsel

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Shareholders desiring further information on TransCanada PipeLines may obtain a copy of the booklet *'Operating and Statistical Information 1960-69'* by writing directly to
R. G. Wall, Vice-President and
Treasurer, TransCanada PipeLines,
150 Eglinton Avenue East,
Toronto 12, Ontario

Welding in Saskatchewan, summer 1969

Highlights

Operations	1969	1968
Operating revenues	$232,405,159	$195,658,773
Operating profit	42,209,956	38,347,892
Net income	14,865,909	17,273,598
Funds provided from operations	33,436,391	32,771,379
Dividends declared		
Preferred shares	5,588,815	4,883,703
Common shares	8,278,216	8,241,726
Net income per common share		
On average shares outstanding during year	1.12	1.53
On shares outstanding December 31	1.12	1.53
Dividends declared, per common share	1.00	1.00

Gas Sales (millions of cubic feet)		
Annual volume	605,000	516,000
Maximum day, natural gas delivered for sale and transportation	2,298	2,045

Gas Transmission Plant (at December 31)		
Gross plant	$796,414,334	$727,363,224
Miles of pipeline (including loop line)	3,638	3,425
Number of compressor stations	46	46
Compressor horsepower	753,660	710,560

Report to Shareholders

As indicated in quarterly reports, 1969 was a difficult year and operating results were disappointing. Although sales of natural gas increased about 19% over 1968, the net income was significantly less than anticipated by your Directors at the beginning of the year. The increase in the cost of interest on short term borrowings, an increase in the rate of return paid to The Alberta Gas Trunk Line system for gathering gas, reduced throughput resulting from Great Lakes' start-up problems, a more extended shutdown of the TransCanada system in Northern Ontario for upgrading, and delays in completion of producers' gas processing facilities late in the year, were the major factors that contributed to the reduction in income.

The 1969 earnings per common share were $1.12 compared with $1.53 a year earlier. Operating revenues were $232,405,000 compared with $195,659,000 in 1968, and the volume of gas sold was 605 billion cubic feet, up from 516 billion cubic feet the previous year. Because of the cost and throughput problems encountered, net income before provision for dividends on preferred shares dropped to $14,866,000 from $17,274,000 in 1968. The net income available for common shares was $9,271,000, down from $12,626,000 a year earlier.

The average daily throughput increased substantially late in December after delays in construction and maintenance in producers' processing plants in Alberta were rectified, and exceeded 2,000,000 Mcf per day. This improved throughput continued through January and February, reflecting the growth of your company's markets, and the use of the expanded capacity of the transmission system installed during the 1969 construction program.

Late in December a 1969 peak day was established when 2,298,000 Mcf of gas was delivered to market. The wide acceptance of natural gas in the eastern Canadian and U.S. middle-west markets served by the TransCanada system continued to be encouraging. In 1969, natural gas supplied approximately 23% of Canada's total requirements for energy and by 1990 it is estimated that gas will supply more than a third of substantially greater Canadian requirements.

During the year, 213 miles of 36 inch loop line were added to the gas transmission system in Saskatchewan and Manitoba and a total of 43,100 horsepower was installed at compressor stations along the system. An important part of the 1969 construction program involved sandblasting and upgrading of 1,350 miles of pipeline. To obtain the same additional throughput that was achieved last year by this program, an equivalent investment of $44,000,000 in new pipeline would have been required. The cost of the upgrading program was substantially less.

The total 1969 expansion program was completed at a cost of $72,982,000. Because it was necessary to provide for additional sales commitments and because of ever-increasing costs of materials and labour, the 1969 capital expenditure program was greater than originally planned.

The 1970 construction program includes 159 miles of 36 inch loop line and 100,000 horsepower of new compression and will cost approximately $65,000,000.

To provide funds for expansion it will be recalled the Company arranged a U.S. $120,000,000 First Mortgage Pipe Line Bond issue and $30,000,000 of this issue was drawn down in 1967 and 1968. In July 1969 $53,850,000 of these bonds were sold and the balance of $36,150,000 were sold in January 1970. The yield on these bonds to the investor was approximately 6.93%.

Your Directors expressed concern over rising interest rates in their report to you a year ago. Unfortunately rates have soared since then and as pointed out, the adverse effect is reflected in the results for 1969. In an effort to limit interest cost, short term notes fully secured by bank lines of credit were issued during the year. The outstanding amount of these notes varied from time to time up to $50 million. Further long term financing plans are now being studied.

The Company's gas supply position continues to be strong. However, with the dramatic increase in the demand for gas in Canada and the U.S., the field price of gas purchased under new contracts increased substantially in 1969. In contracting for new reserves, TransCanada has had to undertake to make large prepayments to producers to secure the reserves of gas required.

In December, your Company received an addition to its permit from Alberta to remove an additional 2.3 trillion cubic feet of natural gas. This extends the total volume under Alberta permit to 21.4 trillion cubic feet. Late in the year the Company applied to remove another 0.96 trillion cubic feet from Alberta. Our Calgary based gas supply department is actively continuing its efforts to purchase additional volumes.

U.S. gas pipeline companies are now looking to Canada as a major future source of supply, and because of the associated implications and potential effects on Canada, the National Energy Board has conducted a searching review of policies in relation to these potential exports.

The National Energy Board, in January and February 1970, heard your Company's application for approval to export 275,000 Mcf per day of surplus Canadian gas to the U.S. mid-west. The related hearings

for the import application for this project were also conducted before the Federal Power Commission in Washington by our U.S. customers. Applications have also been made for regulatory approvals for a new sale to Tennessee Gas Pipeline Company at Niagara Falls of 30 Bcf in 1971. It is extremely important to the Company that all governmental approvals for these export projects be obtained in time to allow completion of construction in order to commence delivery of these exports by November 1, 1970.

After serious start-up problems and resultant pressure restrictions, the Great Lakes Gas Transmission Company system resumed full operation in June 1969. Great Lakes has recently made several short term sales which involve increased volumes of gas from TransCanada. The ownership of Great Lakes is still under review by U.S. regulatory authorities. While your Company and its Canadian customers support the present ownership of Great Lakes, which is shared equally by American Natural Gas Company and TransCanada, your Directors are prepared to acquire the 50% U.S. share of the ownership if American Natural must dispose of its interest.

During the year under review, TransCanada GasProducts Ltd., formerly Trans-Canada Grid of Alberta Limited, a wholly owned subsidiary of TransCanada, entered into an agreement with Dome Petroleum Limited to participate in a project for the extraction, transportation and marketing of propane, butane and natural gasoline from TransCanada's gas stream, above 1.5 Bcf daily. The ultimate investment for this project is estimated to be about $40,000,000, with TransCanada GasProducts Ltd. contributing and owning half of the project. Alberta governmental approvals have been obtained and the National Energy Board hearings for the permits required for this project should take place in the near future. At present it is expected that this project will be in operation in early 1972 and in due course make a significant contribution to the Company's operations.

Banner Petroleums Limited continued an active exploration and development program and made its first sales of oil and gas early in 1970.

The company's wholly owned subsidiary, International Pipeline Engineering Limited, carried out contracts for projects exceeding $10,500,000 in total value in Canada, the U.S. and Australia during its first year of operation.

The most important long term planning that is under way in your Company is in connection with the Northwest Project. During 1969, TransCanada along with American Natural Gas Company and Natural Gas Pipeline Company of America commenced major economic and engineering studies of a natural gas pipeline from Prudhoe Bay, Alaska, to Emerson, Manitoba. Recent discoveries of gas and oil on the North Slope of Alaska and in the Mackenzie River Delta in Canada confirm the wisdom of the decision to actively proceed with this planning. The future of TransCanada must be associated with these existing new developments on the north-western frontiers of Canada.

The Company has also joined Mackenzie Valley Pipeline Research Company to study physical problems common to both oil and gas pipeline construction through the same far north-western area.

The White Paper on Tax Reform released in Ottawa in November 1969 by the Department of Finance is causing your Directors very grave concern. If these taxation proposals are enacted into law, dividend tax credit would not be available to you as shareholders until the Company commences payment of income taxes. Because of the amortization of capital cost of your Company's pipeline system which must be regularly expanded to meet residential, commercial and industrial market requirements, the Company will not have to pay income taxes for several years. The White Paper effectively prevents a shareholder from getting full credits on dividends paid by expanding companies such as TransCanada and makes it very difficult for such companies to compete for equity capital.

By far the most important activity planned by Directors and management in 1970 is the active pursuit of the application to the National Energy Board for the establishment of just and reasonable rates. The filing was made in August 1969 and expeditious handling of this case by the National Energy Board is vital to the Company if the required capital to expand the pipeline system is to be attracted.

This is TransCanada's first rate application. Many methods of conserving capital and minimizing operating expenses have been introduced since initial operation of the system late in 1958. However, recently, interest costs and other uncontrollable cost increases have exceeded any cost savings that have been accomplished, and relief in the form of a rate increase must be obtained.

In December 1969 Mr. Jules R. Timmins, a Director of the Company since 1954, resigned as a member of the Board of Directors. His fellow Directors deeply appreciated the experience in large ventures which he brought to the Board. His support of TransCanada is only part of his important contribution to Canada.

In March 1970 Mr. John H. Coleman, Executive Vice-President of the Royal Bank of Canada, was appointed a Director. Mr. Coleman brings to your Board a wealth of business, commercial and financial experience and knowledge which will be most valuable to the future of the Company.

Many complex corporate matters and operating problems were handled by the employees of the Company during the past year and their skill, experience and dedicated desire to serve in the best interest of the Company were demonstrated. The Directors extend sincere thanks to all employees for their continued enthusiastic and loyal efforts.

On behalf of the Board,

Chairman and Chief Executive Officer

Toronto, Ontario March 11, 1970

Consolidated balance sheet

December 31, 1969 (with comparative figures at December 31, 1968)

Assets	1969	1968
Plant, Property and Equipment		
Gas transmission plant—at cost (Note 1)	$796,414,334	$727,363,224
Less accumulated depreciation	126,518,927	111,430,578
	669,895,407	615,932,646
Oil and gas properties—at cost (Note 2)	9,045,274	4,092,051
	678,940,681	620,024,697
Investment In and Advances To Great Lakes Gas Transmission Company—at cost (Note 3)	25,684,799	19,778,556
Cash on Deposit for Future Investment in Great Lakes Gas Transmission Company	—	1,612,681
Special Refundable Tax	143,854	536,997
Current Assets		
Cash	3,253,430	380,774
Accounts receivable	26,725,400	21,972,207
Materials and supplies—at cost	4,060,325	2,842,937
Line pack gas—at cost	1,299,264	1,198,538
Gas stored underground—at cost	—	239,217
Prepayments and deposits	4,310,823	10,381,906
	39,649,242	37,015,579
Deferred Charges		
Unamortized debt discount and expense	9,367,841	7,296,894
Great Lakes project (Note 3)		
Additional costs of gas	7,079,199	7,082,493
Preliminary charges	318,077	397,596
Other	406,342	253,167
	17,171,459	15,030,150
	$761,590,035	$693,998,660

See accompanying notes to financial statements.

Liabilities	1969	1968
Shareholders' Equity		
Capital stock (Note 4)		
Preferred—Authorized—4,978,275 shares of a par value of $50.00 per share		
—Issued and outstanding		
—$2.80 cumulative redeemable shares		
1969— 978,275 shares	$ 48,913,750	
1968—1,000,000 shares		$ 50,000,000
—$2.75 cumulative redeemable convertible shares—Series A		
1969—1,024,788 shares	51,239,400	
1968—1,030,000 shares		51,500,000
Common—Authorized—25,000,000 shares of a par value of $1.00 per share		
—Issued and outstanding		
1969—8,285,717 shares	8,285,717	
1968—8,258,776 shares		8,258,776
	108,438,867	109,758,776
Contributed surplus—per Consolidated Statement	88,276,484	87,415,136
Retained earnings—per Consolidated Statement	34,587,138	33,588,260
Shareholders' equity	231,302,489	230,762,172
Deferred Credit (Note 5)	3,284,456	4,379,273
Long Term Debt (Note 6)	386,542,492	350,025,739
Notes Payable (Note 7)	82,909,781	55,388,750
Current Liabilities		
Long term debt due within one year	21,417,281	18,875,550
Accounts payable	24,725,856	24,777,496
Interest accrued	7,946,916	6,316,861
Dividends payable	3,460,764	3,472,819
	57,550,817	53,442,726
	$761,590,035	$693,998,660

On behalf of the Board:

J. W. Kerr, Director

Beverley Matthews, Director

Consolidated statements

Year ended December 31, 1969 (with comparative figures for 1968)

Income

Income	1969	1968
Operating Revenues		
Gas sales	$231,403,387	$194,712,753
Gas transportation	1,001,772	946,020
	232,405,159	195,658,773
Operating Expenses		
Cost of gas sold (Note 3)	101,487,077	95,480,521
Gathering charges	20,264,050	17,243,110
Transmission by others	22,845,576	4,416,039
Operation and maintenance	24,680,789	22,209,526
Amortization of Deferred Credit (Note 5)	(1,094,817)	(1,094,817)
Depreciation (Note 1)	18,025,643	15,817,963
Taxes—provincial and municipal	3,986,885	3,238,539
	190,195,203	157,310,881
Operating profit	42,209,956	38,347,892
Interest and Other Deductions		
Interest on long term debt	22,524,515	21,952,364
Amortization of debt discount and expense less gain on purchase of Subordinated Debentures	1,167,412	654,038
Other interest expense	6,070,936	1,512,012
Other income (credit)	(83,281)	(447,393)
Interest charged to construction (credit)	(2,335,535)	(2,596,727)
	27,344,047	21,074,294
Net Income for the Year (Note below)	$ 14,865,909	$ 17,273,598

Note

Net income applicable to common shares	1969	1968
Net income for the year (above)	$ 14,865,909	$ 17,273,598
Less provision for dividends on preferred shares	5,595,078	4,647,667
Net income applicable to common shares	$ 9,270,831	$ 12,625,931
Net income per common share (on weighted daily average number of shares outstanding during year)	$ 1.12	$ 1.53

Retained Earnings

Retained Earnings	1969	1968
Balance at beginning of year	$ 33,588,260	$ 29,440,091
Net income for year	14,865,909	17,273,598
	48,454,169	46,713,689
Dividends declared		
Preferred	5,588,815	4,883,703
Common	8,278,216	8,241,726
	13,867,031	13,125,429
Balance at end of year (Notes 8 and 9)	$ 34,587,138	$ 33,588,260

See accompanying notes to financial statements.

Contributed Surplus

	1969	1968
Balance at beginning of year	$ 87,415,136	$ 87,866,567
Premium on common shares issued (Note 4)	706,631	687,685
Credit resulting on redemption of $2.80 cumulative redeemable preferred shares (Note 4)	154,717	—
	88,276,484	88,554,252
Capital stock expense written off	—	1,139,116
Balance at end of year	$ 88,276,484	$ 87,415,136

Source and Application of Funds

	1969	1968
Funds were derived as follows		
Current operations		
Net income	$ 14,865,909	$ 17,273,598
Add back non-cash items		
Depreciation	18,025,643	15,817,963
Other (net)	544,839	(320,182)
	33,436,391	32,771,379
Notes	27,521,031	33,979,375
Issue of securities—net proceeds		
6⅜% First Mortgage Pipe Line Bonds	55,361,373	6,855,639
$2.75 Cumulative Redeemable Convertible Preferred Shares	—	50,437,420
Common Shares	457,772	713,630
Special refundable tax	393,143	(50,687)
Other	839,920	497,312
	$118,009,630	$125,204,068
Funds were applied as follows		
Additions to plant, property and equipment	$ 72,981,591	$ 80,434,274
Oil and gas properties	4,953,223	2,819,564
Great Lakes project		
Investment in and advances to Great Lakes Gas Transmission Company	5,906,243	7,485,134
Cash on deposit for future investment	(1,612,681)	(7,620,000)
Additional costs of gas	389,434	1,614,535
Long term debt		
Retirement	18,889,158	18,928,836
Purchase of 1987 Subordinated Debentures	636,794	3,998,376
Redemption of $2.80 Cumulative Redeemable Preferred Shares	931,534	—
Dividends		
Preferred	5,588,815	4,883,703
Common	8,278,216	8,241,726
Increase in working capital exclusive of changes in current portion of long term debt	1,067,303	4,417,920
	$118,009,630	$125,204,068

Notes

Notes to Consolidated Financial Statements, December 31, 1969

1. Gas transmission plant

The TransCanada natural gas transmission system extends from the Alberta-Saskatchewan border across the Provinces of Saskatchewan, Manitoba and Ontario and through a portion of the Province of Quebec.

The Company has provided for depreciation at the rate of 2% on pipeline, 3½% on compressor stations and other transmission plant and at various rates on general plant equipment. Depreciation is based on straightline rates determined on the physical and economic life of the assets.

2. Oil and gas properties

All expenditures relate to exploration and development of oil and gas reserves and accordingly have been capitalized. Production will commence early in 1970 at which time amortization of these costs will be provided for by the unit-of-production method based on total estimated recoverable reserves of oil and gas.

3. Great Lakes project

Great Lakes Gas Transmission Company (Great Lakes) is a United States corporation owned equally by the Company and American Natural Gas Company (American Natural). Great Lakes owns and operates a 36 inch pipeline system, which serves as a loop of the TransCanada transmission system, extending from Emerson, Manitoba, through Minnesota, Wisconsin and Michigan to Sarnia, Ontario. The Great Lakes pipeline system was substantially completed in 1968 and is now in operation under valid and subsisting certificates. The Presiding Examiner of the Federal Power Commission, in an initial decision issued December 31, 1969, arising out of remanded proceedings before the Commission concerned principally with American Natural's 50% ownership in Great Lakes, has recommended that Great Lakes ownership be maintained in its present form until June 30, 1970, or such earlier date as regulatory authorities in Canada and the United States have dealt with a proposal to construct a pipeline from Canada competing with Great Lakes. Under the Examiner's recommendation, if the proposed line is approved, Great Lakes will continue under its present ownership; but if it is not approved, American Natural will be required to divest itself of its ownership in Great Lakes and TransCanada will be permitted to exercise its option to purchase American Natural's 50% interest. The Examiner's initial decision is subject to review.

The Company and American Natural have each invested U.S. $22,500,000 in common shares of Great Lakes to December 31, 1969. The Company's portion of the equity underlying this investment is U.S. $23,012,553. No portion of the retained earnings of Great Lakes has been recorded in the Company's accounts.

Prior to the commencement of deliveries of natural gas from western Canada through the Great Lakes system, the Company entered into short term contracts for the purchase of natural gas from suppliers in the United States to assist in the orderly development of markets in eastern Canada. The terms of these contracts, which originally extended to November 1, 1970, have been renegotiated with the result that no further deliveries remain outstanding under these contracts as at December 31, 1969. The difference between the actual cost of this short term supply and the ultimate selling price of gas delivered through the Great Lakes system to the storage fields near Dawn, Ontario is considered to be one of the costs of bringing the Great Lakes system into operation. This difference is carried on the Company's balance sheet under the caption "Great Lakes project – Additional costs of gas" and, commencing in 1968, is being amortized to operating expenses over an estimated 15 year period at the rate of ¼¢ per Mcf of throughput through the Great Lakes system. This procedure has been approved by the National Energy Board for accounting purposes. The Board has reserved for future consideration the appropriate treatment of these costs as they relate to traffic, tolls and tariffs.

The major portion of the costs incurred by the Company in connection with the Great Lakes project has been charged to Great Lakes. Amounts not charged are carried on the Company's balance sheet under the caption "Great Lakes project – Preliminary charges" and are being amortized to operating expenses in five equal annual instalments commencing in 1969.

4. Capital stock

The $2.80 Cumulative Redeemable Preferred Shares are redeemable at the option of the Company at

$52.50 per share to May 1, 1971 and thereafter at redemption prices reducing in progressive steps to $50.50 per share after May 1, 1977. As required, the Company maintains a purchase fund which, subject to certain conditions, is replenished annually on each February 1 to an amount equal to 2% of the par value of the $2.80 Cumulative Redeemable Preferred Shares outstanding on the preceding December 31. This purchase fund is applied, subject to certain conditions, to purchase these preferred shares for cancellation to the extent, if any, that such shares are available at a price not exceeding $50.00 per share plus costs of purchase. A total of 21,725 $2.80 Cumulative Redeemable Preferred Shares were purchased out of capital and cancelled by application of this fund during 1969 resulting in a credit to Contributed Surplus of $154,717 being the difference between the par value and the cost of the preferred shares purchased.

As at December 31, 1969, 499,951 Share Purchase Warrants, which had been issued in association with the sale of the $2.80 Cumulative Redeemable Preferred Shares, were outstanding. Each warrant is exercisable to April 30, 1976, and entitles its holder to purchase one common share for $41.00 or at such adjustment of that price as may be required to be made under the terms of the warrant. 499,951 common shares are reserved for the exercise of Share Purchase Warrants.

The $2.75 Cumulative Redeemable Convertible Preferred Shares Series A are redeemable at the option of the Company at $52.50 per share commencing May 1, 1973, and thereafter at redemption prices reducing in progressive steps to $50.50 per share after April 30, 1984. On February 1, 1971, the Company is required, subject to certain conditions, to create a purchase fund equal to 2% of the par value of the Preferred Shares Series A outstanding on December 31, 1970. This purchase fund is to be applied, subject to certain conditions, to purchase these shares for cancellation to the extent, if any, that such shares are available at a price not exceeding $50.00 per share plus costs of purchase. On each February 1 thereafter, the Company is required to bring the balance in the purchase fund up to an amount equivalent to 2% of the par value of the Preferred Shares Series A outstanding on the preceding December 31. These shares are convertible to May 1, 1978, or the day prior to redemption, whichever is earlier, into common shares of the Company on the basis of 1-6/7 common shares for each share converted. The foregoing conversion basis is subject to adjustment in certain circumstances. During 1969, 9,676 common shares were issued under this conversion privilege. 1,903,181 common shares are reserved for conversion of Preferred Shares Series A.

The 5% Convertible Subordinated Income Debentures due 1989 are convertible to December 1, 1974, into common shares at a conversion price of $41.00 per share or at such adjustment of that price as may be required to be made under the terms of these convertible debentures. During 1969, 373 common shares were issued under this conversion privilege. 611,490 common shares are reserved for the conversion of the 5% Convertible Subordinated Income Debentures due 1989. The convertible debentures are now redeemable at the option of the Company.

At December 31, 1969, 123,568 common shares are reserved for the exercise of options granted or which may be granted under the terms and conditions of the Company's Incentive Stock Option Plan. There were outstanding options on 99,442 shares under this plan at prices varying from $23.94 to $42.69, the last of which expires in 1979. During 1969, 16,892 shares were issued under this plan for a cash consideration of $457,772.

5. Deferred credit

On May 29, 1963, the Company purchased from the Northern Ontario Pipe Line Crown Corporation the Northern Ontario Section which the Company had formerly leased and operated as an integral part of its system. This Section, which consisted of 676 miles of pipeline and five compressor stations, is located between the Manitoba-Ontario border and Kapuskasing, Ontario.

In accordance with the procedures established under the Uniform Classification of Accounts for Gas Pipe Line Companies, the National Energy Board approved a method of accounting for the purchase whereby the amount of $10,948,175 was to be credited to "Deferred credit" and amortized in ten equal annual instalments commencing in 1963.

6. Long term debt

The following issues were outstanding at December 31

		1969	1968
First Mortgage Pipe Line Bonds			
due 1978			
5¼% U.S. Series—U.S. $52,250,000		$ 52,250,000	$ 58,058,000
5½% Canadian Series		11,900,000	13,224,000
6¼% U.S. Series—U.S. $4,438,000		4,438,000	4,894,000
6¾% Canadian Series		2,535,000	2,813,000
due 1983			
5¾% U.S. Series—U.S. $72,336,114		77,903,733	83,539,228
6¼% Canadian Series		34,826,268	37,345,680
due 1985			
5⅛% U.S. Series—U.S. $35,601,200		38,400,034	40,826,524
due 1987			
(Sinking fund payments commence in 1970)			
6⅝% U.S. Series—U.S. $83,850,000		90,531,261	32,303,803
Subordinated Debentures due 1987			
5.60% U.S. Series—			
U.S. $20,138,800	$ 20,138,800		
Less—Company owned	862,100	19,276,700	19,826,600
5.85% Canadian Series	$ 52,361,200		
Less—Company owned	1,971,200	50,390,000	50,555,700
Convertible Subordinated Income Debentures (Note 4)			
5% due 1989		25,071,100	25,086,600
		407,522,096	368,473,135
Less—long term debt due within one year			
Canadian $21,417,281		20,979,604	
Canadian $18,875,550			18,447,396
		$386,542,492	$350,025,739

Based on the rate of exchange prevailing at December 31, 1969, $270,062,481 would be required to discharge the long term portion of the U.S. currency debt outstanding at December 31, 1969. Such long term debt is repayable over a period extending to 1987 and is included in the above table in the amount of $265,941,033.

Sinking fund payments for the Subordinated Debentures due 1987 have been provided for by debentures owned by the Company and consequently these sinking fund payments are not included in the liability for long term debt due within one year.

The Company entered into Bond Purchase Agreements dated September 14, 1967 to sell at par U.S. $120,000,000 principal amount of 6⅝% First Mortgage Pipe Line Bonds due August 1, 1987. Subsequently these Agreements were amended waiving certain conditions pertaining to the disposition of appeals relative to the Great Lakes project (Note 3) and providing for the sale of the Bonds at a discount. The Agreements provided for the Bonds to be sold at four separate closings and the final closing for U.S. $36,150,000 took place on January 15, 1970.

Maximum sinking fund requirements approximate $28,800,000 for each of the years 1971, 1972, 1973 and 1974.

The Deed of Trust and Mortgage provides for increased sinking fund payments if a Certificate of Gas Supply indicates exhaustion of gas supply earlier than specified dates.

As required, the Company's gas purchase and sales contracts and the contracts with The Alberta Gas Trunk Line Company Limited and Great Lakes Gas Transmission Company are mortgaged and pledged under the Deed of Trust and Mortgage securing the First Mortgage Pipe Line Bonds.

7. Notes payable

Notes payable consist of $37,964,781 of bank loans payable in 1971 and $44,945,000 of short term promissory notes payable in 1970. The Company has available bank lines of credit in excess of its outstanding short term promissory notes. Notes payable were primarily incurred for construction purposes and are not included in Current Liabilities as it is the Company's practice to replace notes payable by long term financing.

8. Restrictions on common share dividends

Declaration of dividends on common shares is restricted under the provisions of the Deed of Trust and Mortgage securing the First Mortgage Pipe Line Bonds, under the Indenture relating to the Subordinated Debentures due 1987 and under the provisions of the $2.80 Cumulative Redeemable Preferred Shares and the $2.75 Cumulative Redeemable Convertible Preferred Shares Series A. Under the most restrictive of such provisions $14,500,000 was available for the payment of dividends on common shares at December 31, 1969.

During 1969, in implementation of the Company's policy of postponing the payment of income taxes to the extent permitted by tax laws, the Company refiled its 1967 and prior years' returns using a revised method of computing taxable income. Since the income taxes required to be deducted in computing the amount available for the payment of dividends on common shares is based on the Company's taxable income as filed, this action resulted in a substantial increase during 1969 in the amount available for the payment of dividends.

9. Income taxes

As allowed by the appropriate regulations, the Company has followed the practices and principles of claiming certain deductions for income tax purposes, principally depreciation, in excess of the amounts charged to income for accounting purposes. As a result no income taxes have been payable to date. If the appropriate tax regulations had not permitted such deductions, income taxes would have been payable in the amount of $9,700,000 for the year 1968, $9,000,000 for the year 1969 and $56,000,000 to date.

The Company has represented to

the National Energy Board that it proposes to follow the practices and principles of recording only income taxes currently payable in both its accounting and rate design and has been instructed that no change should be made in these procedures without the approval of the National Energy Board.

Since there is a reasonable expectation that all income taxes payable by the Company in future years will be included in the Company's allowed cost of service and will be recoverable from customers at that time, the Company has followed the taxes payable basis of accounting.

10. Remuneration of directors and senior officers
Remuneration paid to directors, including fees and salaries, amounted to $310,000 and remuneration paid to senior officers, who are not directors, amounted to $218,000.

11. Capital requirements
During 1970, the Company estimates that $90,000,000 may be expended for pipeline construction, oil and gas properties, gas storage, advance payments to producers and extraction plant construction.

12. Principles of conversion
All assets and liabilities in United States dollars are stated at their Canadian equivalent other than that portion of long term debt due after one year. Long term debt due after one year is stated at the greater of par or its Canadian equivalent determined at the dates of sale of the respective issues.

13. Subsidiary companies
The consolidated statements include, in addition to the accounts of TransCanada PipeLines Limited, the accounts of its subsidiary companies, all of which are wholly-owned.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS
PRUDENTIAL BUILDING
4 KING STREET WEST
TORONTO 105, ONTARIO

Auditors' report to the shareholders

We have examined the consolidated balance sheet of TransCanada PipeLines Limited and its subsidiary companies as of December 31, 1969 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiary companies at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Ontario
February 2, 1970

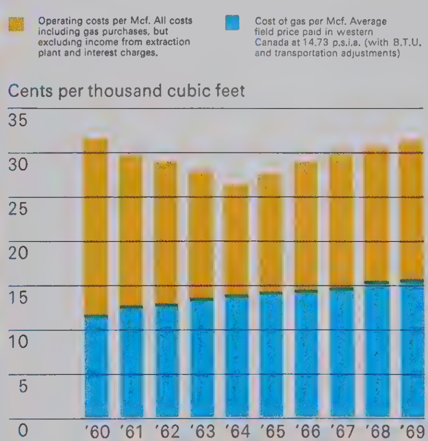
Chartered Accountants

1969 Financial operations

General commentary

The increase in sales revenue for the year of approximately 19% over 1968 did not result in a corresponding increase in net income applicable to common shares. Instead a disappointing reduction in net income was experienced. The apparent disparity between an increase in sales revenue and a decrease in net income is attributable largely to higher financial costs, an increase in gathering expenses due principally to the higher rate of return payable to the gathering system in Alberta, and also to fixed costs related to facilities which could not be fully utilized because of non-recurring events, such as the pressure restrictions on Great Lakes system, the sandblasting and hydrostatic testing on the northern Ontario section and the delivery problems encountered by some of our producers.

Operating costs and cost of gas



Income statement

Gas sales revenue in 1969 amounted to $231,403,387 compared to $194,712,753 in 1968. Operating profit totalled $42,209,956, an increase of $3,862,064 over 1968.

Net income for 1969 amounted to $14,865,909 compared to $17,273,598 in 1968. The amount applicable to common shares, after provision of $5,595,078 for dividends on preferred shares, was $9,270,831. This compares with $12,625,931 for 1968.

Cost of gas sold increased by $6,006,556 or 6.3% over 1968 and compares favourably with an overall volume increase of 17% emphasizing the significance of the reduction of expensive imports from the United States to 23.1 Bcf from 61.3 Bcf in 1968. All imports of natural gas from the United States have now ceased and have been completely replaced by gas from western Canada.

Gathering charges increased by 17.5% over 1968. This can be attributed to the increase in facilities in Alberta required to transport the larger volumes of gas, and to the increase from 7½% to 8% in the rate of return charged by the gathering system. The cost of transmission by others includes transportation charges for a full year's operation of the Great Lakes system compared to two months' operation in 1968.

Increased operation and maintenance, depreciation and taxes reflect the cost of operating and owning the $80,000,000 facility program carried out during 1968.

During 1969 the depreciation rate remained unchanged from 1968 at 2% on pipeline and 3½% on compressor stations and other transmission plant. Depreciation on general plant equipment was provided at various rates. The rates are consistent with those used since 1962 and are based on estimates of physical and economic life.

Other interest expense reflects costs of carrying larger short term borrowings at substantially higher rates of interest than were experienced during 1968.

The credit for interest charged to construction during 1969 results from the large construction program completed during the year of $73,000,000.

No income taxes have been payable by the Company to date. This results from claiming certain deductions for income tax purposes, principally depreciation, in excess of the amounts charged to income in the accounts.

Funds generated from operations during 1969 amounted to $33,436,391 equivalent to $4.04 per common share outstanding December 31, 1969 compared with $3.97 per common share in 1968.

Balance Sheet

Assets

To December 31, 1969, Banner Petroleums Limited and Banner Petroleums (Western) Limited, wholly-owned subsidiaries, had invested $9,045,274 in oil and gas properties in the Provinces of British Columbia, Alberta, Saskatchewan, Ontario, and in the Gulf of St. Lawrence, Hudson Bay, and in the Canadian Arctic regions in the program of exploration for, and development of, reserves of petroleum and natural gas. The costs involved will be amortized against income by the unit-of-production method based on total estimated recoverable reserves. Production commenced in early 1970.

The Company has invested U.S. $22,500,000 to December 31, 1969 in common shares of Great Lakes Gas Transmission Company. Related to this project is "Additional Costs of Gas" which the Company is carrying as a deferred charge totalling $7,079,199 as at December 31, 1969. The nature of this deferral and the method used for amortization of the amount, which began in 1968, is more fully explained in Note 3 to the financial statements.

Prepayments and deposits includes prepayments of $3,559,254 for natural gas, delivery of which will not be taken by the Company until 1970.

Liabilities

During 1969 the Company sold a

further U.S. $53,850,000 under the Bond Purchase Agreements with institutional buyers covering a total of U.S. $120,000,000 of 6⅝% First Mortgage Pipe Line Bonds due August 1, 1987. On January 15, 1970 U.S. $36,150,000 representing the balance of the U.S. $120,000,000 was sold. The yield on these bonds to the investor was approximately 6.93%.

During June 1969 the Company commenced selling promissory notes as a means of short term financing. The rate of interest on these notes is lower than on alternate sources of funds and the notes are fully supported by unused bank lines of credit.

On December 31, 1969 the Company surrendered U.S. $694,500 par value of 5.60% Subordinated Debentures, due 1987, and Can. $1,805,500 par value of 5.85% Subordinated Debentures, due 1987, to the Trustee for cancellation under the sinking fund provisions attaching to these U.S. and Canadian Series Debentures.

The credit to the Contributed Surplus of $154,717 resulted from the purchase out of capital during the year of 21,725 of the $2.80 Cumulative Redeemable Preferred Shares as required by the purchase fund provisions. The details of this purchase fund and its operation are contained in Note 4 to the financial statements.

Dividends totalling $2.80 per share were declared during 1969 on the $2.80 Cumulative Redeemable Preferred Shares (at the rate of 70¢ per quarter) and dividends totalling $2.75 were declared on the $2.75 Cumulative Redeemable Convertible Preferred Shares Series A (at the rate of 68¾¢ per quarter). Four quarterly dividends of 25¢ per share were declared on common shares.

Urban markets along TransCanada's natural gas transmission system:
Top: Regina. Centre: Winnipeg
Bottom: Thunder Bay.


1


2

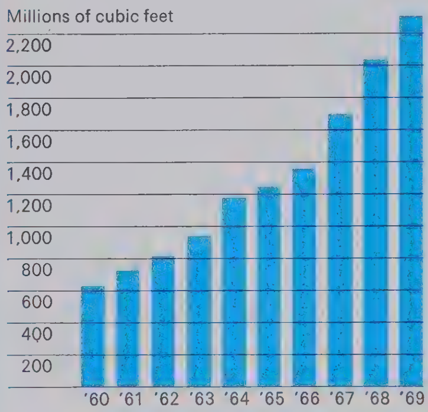

3


SASKATCHEWAN
ALBERTA
MANITOBA
UNITY
SASKATOON
RUSSELL
GATHERED BY ALBERTA GAS TRUNK LINE SYSTEM
BURSTALL
CABRI
HERBERT
CARON
REGINA
GRENFELL
MOOSOMIN
RAPID CITY
PORTAGE LA PRAIRIE
WINNIPEG
ILE DES CHENES
SPRUCE
EMERSON
ST. VINCENT
FALCON LAKE
KENORA
VERMILION BAY
DRYDEN
IGNACE
THIEF RIVER FALLS
BEMIDJI
DEER RIVER
MINNESOTA
GREAT LAKES GAS TRANSMISSION COMPANY
FROM SASKATCHEWAN POWER CORPORATION
FROM STEELMAN GAS LIMITED
LEGEND
EXISTING PIPELINE FACILITIES
NEW PIPELINE CONSTRUCTION
EXISTING STATION
NEW COMPRESSION FACILITIES–EXISTING STATION
NEW STATION
POINTS OF DELIVERY TO SYSTEM
CONNECTING SYSTEM

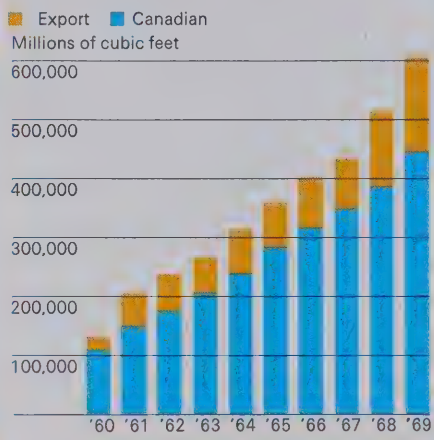
1. North Bay. 2. Hamilton. 3. Toronto.
4. Kingston. 5. Ottawa. 6. Montreal.

Graphs

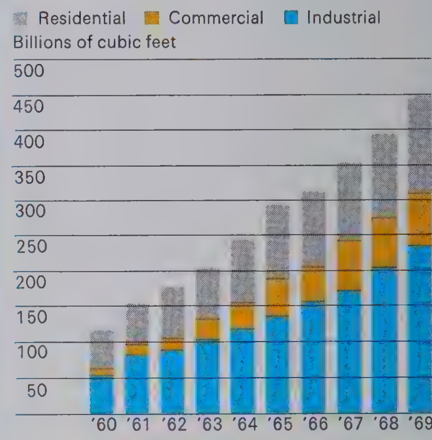
Maximum day gas delivered for sale and transportation



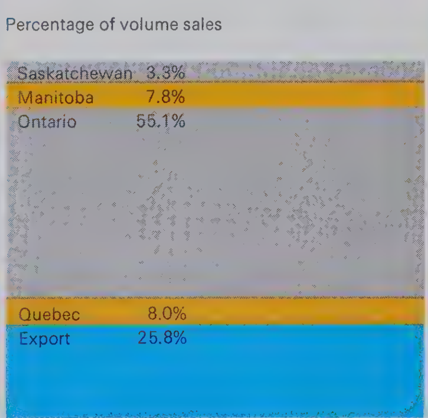
Annual gas sales volumes



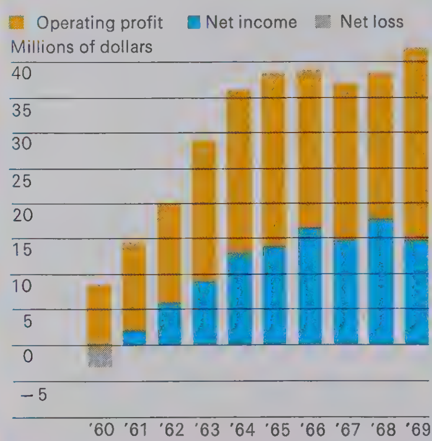
Annual Canadian sales by category



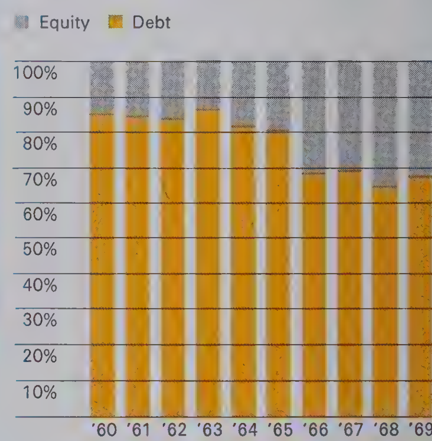
Where the gas was sold in 1969



Operating profit and net income



Debt equity ratio-percentage



Common shares

Share distribution as at December 31, 1969

	No. of shareholders	No. of shares
Newfoundland	46	4,189
Prince Edward Island	73	5,362
Nova Scotia	632	73,460
New Brunswick	416	34,310
Quebec	3,230	2,551,108
Ontario	11,973	2,618,629
Manitoba	1,167	348,565
Saskatchewan	919	93,012
Alberta	3,294	1,716,146
British Columbia	4,301	428,454
Yukon Territory	7	166
Total Canadian	26,558	7,873,401
U.S.A.	3,250	323,989
United Kingdom	158	56,046
Other countries	194	32,281
Overall total	30,160	8,285,717

$2.75 cumulative redeemable convertible preferred shares series 'A'

Share distribution as at December 31, 1969

Distribution	No. of shareholders	No. of shares
Newfoundland	18	203
Prince Edward Island	13	230
Nova Scotia	174	5,011
New Brunswick	113	4,195
Quebec	854	301,714
Ontario	3,424	287,466
Manitoba	454	345,419
Saskatchewan	353	7,643
Alberta	916	38,608
British Columbia	1,081	31,277
Northwest Territories	2	6
Yukon Territory	1	7
Total Canadian	7,403	1,021,779
U.S.A.	31	951
Other countries	70	2,058
Overall total	7,504	1,024,788

$2.80 cumulative redeemable preferred shares

Share distribution as at December 31, 1969

Distribution	No. of shareholders	No. of shares
Newfoundland	8	825
Prince Edward Island	18	826
Nova Scotia	180	20,182
New Brunswick	84	5,954
Quebec	701	212,522
Ontario	3,058	481,509
Manitoba	344	44,856
Saskatchewan	212	15,011
Alberta	744	56,345
British Columbia	1,273	138,260
Northwest Territories	—	—
Yukon Territory	—	—
Total Canadian	6,622	976,290
U.S.A.	12	855
Other Countries	9	1,130
Overall total	6,643	978,275

Marketing

TransCanada's sales have increased by 69% since 1965. In 1969, total sales by the Company in Canadian and United States markets reached 605 Bcf, up more than 17% from 516 Bcf in 1968.

The growth during 1969 was particularly notable in the export market and in eastern Canada. Canadian sales advanced by 15% and, with large volumes of western Canadian gas available from the Great Lakes system, eastern Canadian markets grew by 17%.

The increase in export sales of 23% resulted from larger sales to Great Lakes Gas Transmission Company at Emerson, Manitoba, and to Tennessee Gas Pipeline Company at Niagara Falls. In 1965, prior to the completion of the Great Lakes system, TransCanada arranged to import from Tennessee a maximum of 76.5 Bcf of gas over a period extending to November, 1970 in order to support the expansion of the eastern Canadian market. During 1969, this arrangement was terminated and more gas was exported than imported at Niagara Falls. Deliveries have started on an export sale to Tennessee at Niagara Falls which will total 25 Bcf by November 1, 1970 and, subject to regulatory approval, 30 Bcf will be delivered to Tennessee during the year ending November 1, 1971.

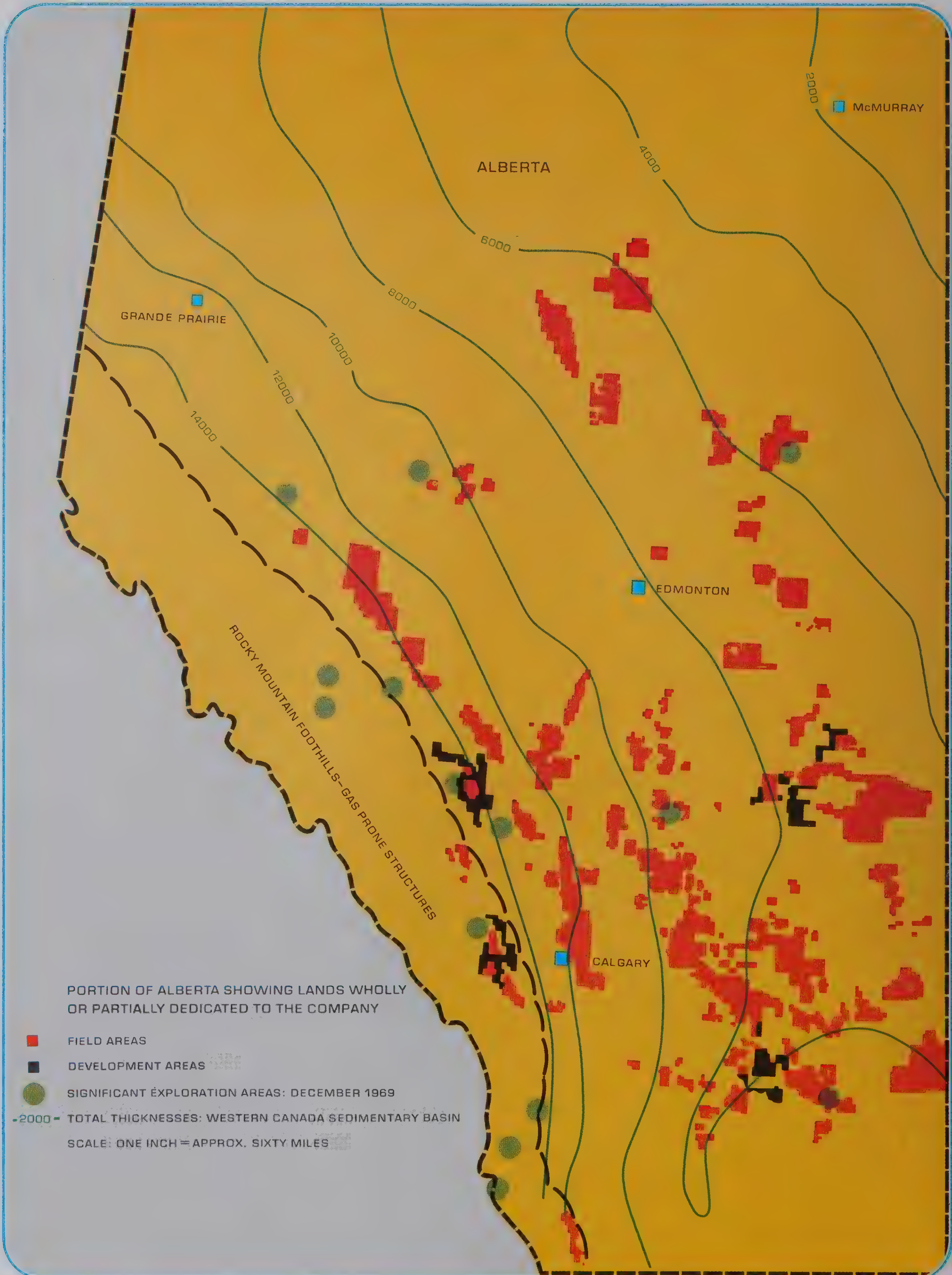
Export sales are expected to continue to grow. The Company has entered into long term contracts to export an additional 275,000 Mcf of natural gas per day into the United States. This gas is designated for delivery into midwestern United States markets, including Chicago, commencing on November 1, 1970, and hearings before the National Energy Board of Canada have been completed except for one small sale. Opportunities to export gas surplus to the needs of Canada into the United States will increase because available new gas supplies in the United States are not sufficient to meet new market demands.

Natural gas continues to increase its penetration of the house heating markets in Saskatchewan, Manitoba and Ontario, where it is widely available in most urban areas. Of all new residential construction accessible to mains, natural gas is capturing virtually all of this market in Saskatchewan, better than 90% in Manitoba and northern Ontario, 80% to 85% in southwestern Ontario, and approximately 75% in eastern Ontario. The percentage of all households in these provinces using natural gas as the principal heating fuel has risen from 31% in 1965 to 40% in 1969.

In Canada, the use of gas for commercial and industrial purposes is increasing more rapidly than for residential use. This trend is expected to continue as more and more people live in multiple housing than in single unit dwellings and as relatively clean-burning natural gas serves an increasing share of the industrial market where its advantage in controlling air pollution is becoming an important factor.

Annual Gas Sales fiscal years 1960-1969

By customer (volumes in Mmcf)	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Saskatchewan Power Corporation	19,680	17,417	13,020	6,224	3,399	3,279	2,958	2,955	2,977	2,512
Plains-Western Gas (Manitoba) Limited	6,435	6,565	4,553	2,588	2,456	1,980	1,530	1,406	1,577	1,035
Inter-City Gas Limited	3,496	3,296	3,117	2,885	2,474	2,145	1,892	1,784	1,596	1,401
Greater Winnipeg Gas Company	37,172	35,628	34,480	33,255	27,406	23,467	19,108	15,604	13,262	9,087
Northern and Central Gas Corporation Limited	83,695	75,805	70,089	61,523	56,874	53,049	46,530	42,503	35,488	31,143
The Consumers' Gas Company	148,983	120,610	112,604	105,301	96,707	82,860	73,294	61,535	51,584	41,192
Union Gas Company of Canada, Limited	99,197	86,736	70,142	65,768	54,041	43,533	33,264	25,525	20,582	16,113
Kingston Public Utilities Commission	1,707	1,586	1,550	1,555	1,489	1,224	1,006	616	443	345
Gaz Métropolitain, Inc.	48,433	41,153	41,114	41,149	36,308	31,737	27,036	23,120	23,780	12,205
Total Canadian	448,798	388,796	350,669	320,248	281,154	243,274	206,618	175,048	151,289	115,033
Midwestern Gas Transmission	117,792	117,197	83,718	77,148	73,988	71,366	62,785	61,954	59,139	12,485
Great Lakes Gas Transmission	19,895	3,665	—	—	—	—	—	—	—	—
Tennessee Gas Pipeline Company	11,099	455	—	—	—	—	—	—	—	—
Niagara Gas Transmission	5,361	4,394	3,994	3,371	3,144	2,078	1,687	257	—	—
Vermont Gas Systems, Inc.	2,095	1,452	613	270	—	—	—	—	—	—
Total U.S. Export	156,242	127,163	88,325	80,789	77,132	73,444	64,472	62,211	59,139	12,485
Total Sales	605,040	515,959	438,994	401,037	358,286	316,718	271,090	237,259	210,428	127,518


ALBERTA
McMURRAY
GRANDE PRAIRIE
EDMONTON
CALGARY
2000
4000
6000
8000
10000
12000
14000
ROCKY MOUNTAIN FOOTHILLS—GAS PRONE STRUCTURES
PORTION OF ALBERTA SHOWING LANDS WHOLLY OR PARTIALLY DEDICATED TO THE COMPANY
FIELD AREAS
DEVELOPMENT AREAS
SIGNIFICANT EXPLORATION AREAS: DECEMBER 1969
-2000- TOTAL THICKNESSES: WESTERN CANADA SEDIMENTARY BASIN
SCALE: ONE INCH = APPROX. SIXTY MILES

Gas supply/Banner Petroleums Limited

Gas supply

Your Company was successful in acquiring substantial additional reserves in 1969.

Competition for new reserves increased sharply as a result of the dramatic increased demands for gas in the U.S. and Canadian markets. The field price of gas purchased under new contracts increased substantially during the year, and the Company in some areas agreed to make prepayments for reserves of gas that are being developed.

During 1969 the Company increased its proven gas reserves under contract by 2.6 trillion cubic feet to a total of 22.3 trillion cubic feet. Of this quantity 3.9 trillion cubic feet has been produced for the Company's purposes to the end of the year. The most significant purchases were in the Strachan-Ricinus area of central Alberta where the Company has wholly or partially dedicated to it some 300 square miles of land. Gas reserves, under contract in this area amounting to 1 trillion cubic feet have been proven to date. Because of the rapid pace of exploration and development drilling it is reasonable to expect that substantial additional gas reserves will become available to the Company under these contracts, and from other areas in the Province also under contract to the Company.

An application in June 1969 to increase the quantity of gas that may be removed from the Province of Alberta was granted in December, 1969 and a new Permit TC 69-9 was issued to the Company. Under the new permit which extends to October 31, 1994, the Company is authorized to remove from Alberta a maximum daily volume of 2.910 billion cubic feet; an annual volume of 932 billion cubic feet and a total volume of 21.4 trillion cubic feet. All volumes are at a 14.65 p.s.i.a. pressure base.

Due to growth in fields presently under contract and as a result of recent purchases in new fields, the Company submitted another application to the Oil and Gas Conservation Board in December, 1969 to further increase the quantity of gas that it may remove from the Province of Alberta by 0.96 trillion cubic feet. Hearing of this application was held on March 4, 1970.

The Company also purchases gas from producers in Alberta and Saskatchewan under authorizations obtained by the producers up to maximum daily volumes of 38 million cubic feet and 23 million cubic feet respectively.

The average cost of gas produced in western Canada and delivered to the Company in 1969, including BTU adjustment, was 15.31¢ per Mcf (at 14.4 p.s.i. pressure base). This represents an increase of 0.47¢ per Mcf over the previous year and reflects in particular automatic price increases, related to the average cost of gas to the Company, as provided in most of its gas purchase contracts entered into prior to 1960. Lower average transportation costs per Mcf were achieved by increased throughput in the facilities of The Alberta Gas Trunk Line Company Limited.

Banner Petroleums Limited

The Banner group of companies participated in the drilling of 45 exploratory wells and 11 development wells in 1969. Of the wells drilled, 7 were completed as oil wells and 22 were completed as gas wells.

The 11 development wells and related gathering system and compression facilities were completed in the Atlee-Buffalo area where the Banner group holds a 50% interest in 34,240 acres of petroleum and natural gas rights. Deliveries of natural gas to TransCanada began in early 1970.

Three oil wells resulted from drilling in which the company participated in the Narrows area of Alberta, and a fourth well was suspended. The Banner companies have a 25% interest in 3,840 acres of petroleum and natural gas leases in the area, and a 37.4% interest in an offsetting drilling reservation comprising 8,000 acres. Additional drilling is scheduled for 1970.

A total of 9 exploratory wells were drilled during 1969 on Banner's holding in the North Ghost Pine area of south central Alberta. Four of these wells were completed as Cretaceous gas wells and one well was completed as a Cretaceous oil well. Deliveries of gas from this area are scheduled to commence in the fall of 1970.

In the James River area of Alberta approximately 17 miles south of the Strachan gas field, Banner has holdings comprising 31,040 gross acres or 6,208 net acres. Of the latter figure the company holds an interest in all zones in 4,224 acres with rights to the base of the Cardium zone only in 1,984 acres. Banner will participate in the drilling of at least two Leduc tests in this area during 1970.

Land holdings as of December 31, 1969, were as follows:

	Gross	Net
Alberta	865,260	417,401
British Columbia	4,334	2,568
Saskatchewan	116,000	54,200
Alaska	78,770	19,692
Gulf of St. Lawrence	798,712	399,356
Hudson Bay	3,048,361	1,219,344
Ontario	6,881	4,624
Total	4,918,318	2,117,185

Engineering and Operations

Station No.	Location	Compressor horsepower Additions 1969	Compressor horsepower Total Dec. 31, 1969
	Saskatchewan		
2	Burstall	12,100	46,300
5	Cabri	—	29,670
9	Herbert	12,100	41,770
13	Caron	—	29,100
17	Regina	—	29,670
21	Grenfell	12,100	41,900
25	Moosomin	—	32,500
	Manitoba		
30	Rapid City	—	29,800
34	Portage la Prairie	—	29,800
41	Ile des Chênes	—	40,100
43	Spruce	—	12,100
45	Falcon Lake	—	12,000
	Ontario		
49	Kenora	—	15,200
52	Vermilion Bay	—	12,100
55	Dryden	—	12,000
58	Ignace	—	15,200
60	Martin	—	12,100
62	Upsala	—	12,000
64	Raith	—	12,100
68	Thunder Bay	—	12,500
70	Hurkett	—	12,100
75	Nipigon	—	12,400
77	Jellicoe	—	12,100
80	Geraldton	—	12,500
84	Klotz Lake	—	12,100
86	Hearst	—	12,000
88	Calstock	—	12,100
92	Mattice	—	10,000
95	Kapuskasing	3,400	10,600
99	Smooth Rock Falls	—	9,900
102	Potter	—	12,100
105	Ramore	—	10,000
107	Swastika	—	10,600
110	Haileybury	—	7,700
112	Marten River	—	10,600
116	North Bay	—	10,400
119	Sundridge	3,400	10,600
123	Bracebridge	—	9,900
127	Barrie	—	10,600
130	Maple	—	7,900
134	Bowmanville	—	6,000
136	Cobourg	—	9,000
139	Belleville	—	6,000
142	Kingston	—	6,000
144	Brockville	—	6,000
	Quebec		
802	Candiac	—	550
Mobile Compressor Units		—	26,000
Total		43,100	753,660

Left: During 1969, TransCanada continued its program of sandblasting the inside of the pipeline to increase natural gas throughput.

Right: Sandblasting the pipeline in northern Ontario.

1969 Construction

In 1969, TransCanada PipeLines completed a total of 213 miles of 36 inch pipeline construction. Of this total 130 miles of pipeline were constructed in Saskatchewan and 65 miles were constructed in Manitoba along the Company's main pipeline system. A further 18 miles of loop line were constructed in Manitoba between Winnipeg and Emerson.

During the year the Company added 43,100 horsepower in compression as shown on the accompanying table.

In addition to the new pipeline construction and compressor horsepower, the Company added substantially to the throughput capability of its system by retesting and upgrading 6 compressor stations and 437 miles of 34 inch and 17.9 miles of 30 inch pipeline in Saskatchewan and Manitoba to enable higher operating pressures. The Company also sandblasted 785.5 miles of its 30 inch system in Manitoba and northern Ontario to improve system performance as well as retesting, sandblasting and upgrading 46.2 miles of 30 inch pipeline, 34.3 miles of 24 inch pipeline, and 76.3 miles of 20 inch pipeline and 3 compressor stations in southern Ontario.

1970 Construction

In 1970, subject to regulatory approval, the Company will undertake another substantial construction program under which approximately 158.6 miles of new 36 inch pipeline will be constructed in Saskatchewan and Manitoba, and 100,000 compression horsepower will be added to the system at an estimated capital cost of $65,000,000.

International Pipeline Engineering Limited

TransCanada and its wholly-owned subsidiary International Pipeline Engineering Limited (IPEL) performed services for various clients in Australia, the United States, and Canada during 1969 on projects exceeding $10,500,000 in total value. In 1970, the company will continue to provide specialized engineering and other services to current projects in Australia, and will undertake several new projects in Canada and the United States, including compressor station design, pipeline and gathering system design, pipeline communication systems and other services. The companies also will undertake general consulting services in Great Britain.

Northwest project

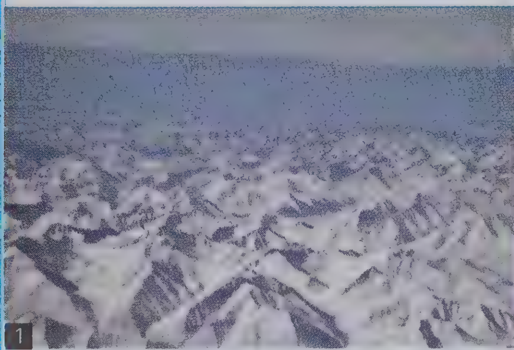
Since March 1967 TransCanada, with Michigan Wisconsin Pipe Line Company, and Natural Gas Pipeline Company of America, has been actively planning the Northwest Project. This project contemplates a 2,600 mile gas transmission system from Prudhoe Bay on the Alaska North Slope to Emerson, Manitoba on the international border. Extensive aerial and ground reconnaissance was conducted early in 1968. A tentative route has been chosen from Prudhoe Bay along the Arctic shore to the Mackenzie River Delta, up the Mackenzie River Valley to a point near Fort Laird, and then in almost a straight line across the Northwest Territories, Alberta, Saskatchewan and Manitoba to Emerson. Plans currently being studied are for a large-diameter pipeline, probably 48 inches, to improve the economics of transmission over this long and difficult route.

Much of the terrain along the northern section of the proposed route is permafrost. Extensive studies of the thermal equilibrium of permafrost soils, drainage problems, and of the effect of disturbance of tundra which insulates the frozen soil, are required before construction design can be finally determined.

TransCanada and its partners have also joined the research and test program of Mackenzie Valley Pipeline Research Limited, which is conducting research on the physical problems of constructing an oil pipeline in the same area.

Top: Pipeline construction near Regina.
Bottom: Mackenzie River delta—possible site of Northwest project.

Down North



Great Lakes Gas Transmission Company/TransCanada GasProducts Ltd.

Great Lakes Gas Transmission Company

Great Lakes Gas Transmission Company, 50% owned by TransCanada, operates 1,015 miles of natural gas pipeline which includes 971 miles of 36 inch mainline, and 44 miles of 10 inch lateral which extends from the Great Lakes' mainline in Michigan's Upper Peninsula to Sault Ste. Marie, Ontario. The mainline of Great Lakes starts at the TransCanada system at Emerson, Manitoba, traverses Minnesota, Wisconsin and Michigan, and extends to the St. Clair River at a point near Sarnia, Ontario, where it connects with the TransCanada system.

The utility plant of Great Lakes cost $259,269,000 to December 31, 1969. Operations for 1969 resulted in a loss of $1,037,000, which reduced retained earnings to $1,025,000 as at December 31, 1969.

Great Lakes is at present authorized to expand its capacity over a five year period to a throughput of 734 million cubic feet daily, of which 677 million will be transported to eastern Canada for the account of TransCanada; and 57 million cubic feet daily will be sold to Michigan Consolidated Gas Company, a subsidiary of American Natural Gas Company which also owns 50% of Great Lakes. During 1969 Great Lakes transported a total of 195 billion cubic feet of gas, the bulk of which, 176 billion cubic feet (90.3%) was delivered to TransCanada for sale in eastern Canada. Sales mainly to Michigan Consolidated totalled 15 billion cubic feet of gas. Great Lakes' gas sales to Michigan Consolidated Gas Company in 1969 were valued at U.S. $6 million.

Long term contracts were signed by Great Lakes in 1969, which involve the projected sale of 155,000,000 cubic feet of gas daily to Natural Gas Pipeline Company of America, 13,000,000 cubic feet daily to Michigan Wisconsin Pipe Line Company and 13,000,000 cubic feet daily to Inter-City Gas Limited. Approval for these sales, which total 181,000,000 cubic feet daily, has been requested from the Federal Power Commission, Washington, D.C. Revenues to be derived from the sale of this gas are valued at U.S. $26,426,000 annually. In addition, Great Lakes also signed two one-year contracts in 1969 for the sale of 18,000,000 cubic feet daily. The value of the sale of this gas is U.S. $2.7 million.

Construction by Great Lakes in 1969, included the completion of two new compressor stations with a total of 25,000 horsepower and a total of 11,200 horsepower was added to two other compressor stations. At the end of the year Great Lakes was operating seven compressor stations with a total of 85,400 horsepower. Three new stations with a total of 37,500 horsepower under construction, will be completed by Great Lakes in the spring of 1970. In addition, 40,600 horsepower will be added to the system during the summer and early fall of 1970.

TransCanada GasProducts Ltd.

TransCanada PipeLines and Dome Petroleum Limited have signed an agreement regarding the extraction of natural gas liquids from the Company's gas stream. The agreement covers arrangements for the processing of a maximum volume of 1.5 billion cubic feet of natural gas per day and for transporting and marketing the liquid petroleum gases produced. The processing facilities will be owned by Dome Petroleum Limited and TransCanada GasProducts Ltd., a wholly owned subsidiary of TransCanada PipeLines Limited. Subject to obtaining all necessary approvals and permits, it is expected that the Dome-GasProducts plant will be placed in operation in 1972.

The extraction plant at Empress, Alberta, owned and operated by Pacific Petroleums Ltd. ("the Pacific plant") continued during 1969 to process the Company's gas stream. The Pacific plant will process 1.5 billion cubic feet of natural gas per day after the Dome-GasProducts plant comes on stream. Pacific's agreement with TransCanada is based on a payout concept, and after payout, benefits to TransCanada will increase substantially.

Some geography in TransCanada's future planning areas.
1. British Mountains, Yukon Territory.
2. Norman Wells, N.W.T.
3. Rae, N.W.T.
4. New construction in the north, Yellowknife, N.W.T.
5. Yellowknife, N.W.T.
6. Inuvik, N.W.T.

Right: Scrubbers for cleaning the natural gas stream at Maple, Ontario.

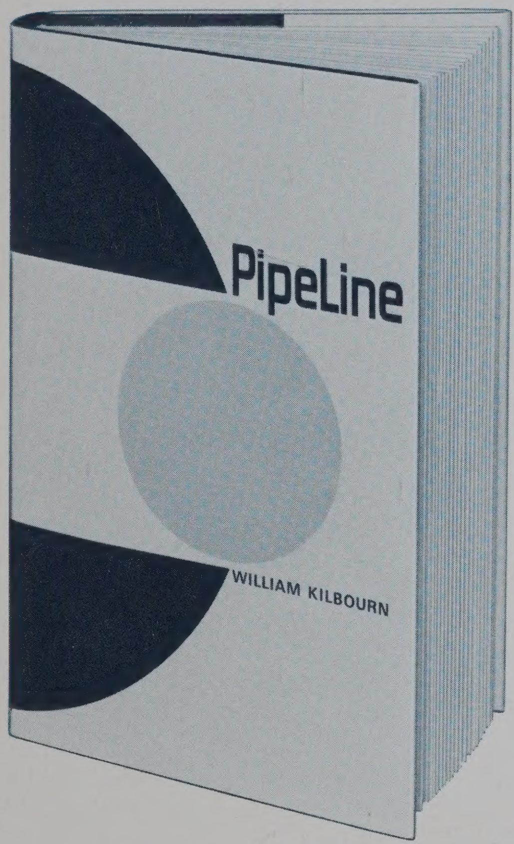
Ten year review

Income (in thousands of dollars)	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Operating Revenues	$ 232,405	195,659	168,122	154,131	136,973	119,612	102,523	87,834	77,108	49,157
Operating Expenses										
Cost of gas sold and gathering charges	121,751	112,724	94,682	82,887	68,550	57,275	47,081	40,164	36,002	20,987
Operation and maintenance	24,681	22,209	19,640	16,944	15,497	12,759	10,124	7,785	7,501	5,599
Transmission by others	22,845	4,416	—	—	—	—	—	—	—	—
Northern Ontario section of main line	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	5,611	11,415	9,853	7,431
Depreciation	18,026	15,818	14,974	14,282	13,575	12,365	9,438	6,665	7,428	4,918
Taxes—provincial and municipal	3,987	3,239	2,745	2,447	2,289	2,191	1,991	1,835	1,743	1,816
	190,195	157,311	130,946	115,465	98,816	83,495	74,245	67,864	62,527	40,751
Operating profit	42,210	38,348	37,176	38,666	38,157	36,117	28,278	19,970	14,581	8,406
Financial expenses (net)	27,344	21,074	22,317	22,165	23,987	22,874	19,350	13,904	12,505	11,317
Net income	14,866	17,274	14,859	16,501	14,170	13,243	8,928	6,066	2,076	(2,911)
Provision for dividends on preferred shares	5,595	4,648	2,800	1,750	—	—	—	—	—	—
Net income applicable to common shares	$ 9,271	12,626	12,059	14,751	14,170	13,243	8,928	6,066	2,076	(2,911)
Net income per common share										
On average shares outstanding during year	$ 1.12	1.53	1.47	1.86	1.87	1.99	1.52	1.03	.35	—
On shares outstanding December 31	$ 1.12	1.53	1.46	1.79	1.87	1.76	1.52	1.03	.35	—
Dividends declared, per common share	$ 1.00	1.00	1.00	1.00	1.00	1.00	—	—	—	—

Balance sheet (in thousands of dollars)										
Plant, property and equipment										
—gross	$ 805,460	731,455	648,851	617,578	587,644	562,329	512,682	329,420	298,028	286,954
—net	678,941	620,025	553,051	536,250	520,074	507,840	470,177	306,503	281,558	277,590
Annual additions	77,900	83,300	31,800	30,700	26,000	51,000	184,000	31,800	11,500	30,800
Long term debt	386,542	350,026	365,424	359,237	391,819	365,779	376,812	214,319	222,185	229,622
Shareholders' equity										
—total	231,302	230,762	175,539	171,504	103,263	95,453	60,832	50,344	45,833	43,757
—per common share	15.83	15.65	15.25	14.77	13.60	12.67	10.38	8.59	7.82	7.47

Statistics										
Miles of pipeline—including loop line	3,638	3,425	3,107	3,073	2,882	2,753	2,604	2,399	2,340	2,340
Compressor horsepower	753,660	710,560	643,360	574,160	545,060	523,510	363,810	270,910	196,510	148,585
Gas sales volume Mmcf										
Annual	605,040	515,959	438,994	401,037	358,286	316,718	271,090	237,259	210,428	127,518
Maximum day, gas delivered for sale and transportation	2,298	2,045	1,694	1,356	1,249	1,196	941	813	744	639
Number of employees—average	1,209	1,121	1,014	954	918	872	805	723	726	702
Common shares outstanding December 31	8,285,717	8,258,776	8,232,749	8,225,499	7,594,735	7,534,529	5,861,383	5,861,183	5,861,183	5,861,183
Shareholders, December 31	30,160	32,586	35,472	35,241	33,829	30,107	32,009	31,864	32,931	35,686

"PipeLine"/Corporate Information



"PipeLine" – the history of TransCanada

With the issue of this annual report, the publication of the book "PipeLine" is announced.

This history of your company is the unique story of how TransCanada PipeLines came into being. It was written by a distinguished Canadian historian, Dr. William Kilbourn, from company records and after personal interviews with nearly all the businessmen, political figures, public servants, company officials and others who were involved in the TransCanada project. "PipeLine" contains an account of the famous parliamentary debate and the people who took part. It tells how the natural gas pipeline which has had such a tremendous impact on the Canadian economy was financed and built. "PipeLine" also reviews TransCanada's first ten years of operation, and outlines the interesting story of the Great Lakes project which is now making increasing volumes of natural gas available to United States markets.

Clarke, Irwin & Company Limited recognized the significance of the story and have published this interesting book. TransCanada PipeLines is pleased to advise that arrangements have been made so that every registered shareholder of the Company who is interested in acquiring "PipeLine" may receive a copy.

Corporate Information

Executive Office
150 Eglinton Avenue East,
Toronto 12, Ontario

Common shares
Transfer agents
Montreal Trust Company,
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver

The First National City Bank of New York,
New York

Registrars
National Trust Company, Limited,
Toronto

Bankers Trust Company,
New York

Preferred shares
Transfer agents and Registrars,
National Trust Company, Limited,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

TransCanada PipeLines Limited,
a Company incorporated by Special Act of the Parliament of Canada, owns and operates 3,638 miles of gas transmission pipeline in Canada

Subsidiaries (Wholly Owned)
Alberta Inter-Field Gas Lines Limited,
presently inactive

Banner Petroleums Limited,
Banner Petroleums (Western) Limited
corporations carrying out oil and gas exploration in western Canada and Ontario

International Pipeline Engineering Limited,
a corporation carrying on the business of engineering, design, and supervision of construction of pipelines and associated facilities

TransCanada GasProducts Ltd.
a corporation which will own an interest in a gas extraction plant and related operations

Western Pipe Lines
a company incorporated by Special Act of the Parliament of Canada, holding certain lands in Canada

Affiliate (50% owned)
Great Lakes Gas Transmission Company,
a Delaware corporation owning and operating a pipeline through the United States from Emerson, Manitoba to Sault Ste. Marie and Sarnia, Ontario

Auditors
Peat, Marwick, Mitchell & Co.

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prospect [illegible] 1970 [illegible]

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